STATE OF MAINE
PUBLIC UTILITIES COMMISSION

November 4, 2003

LINCOLNVILLE TELEPHONE COMPANY
Request for Universal Service Funding
(Updated Request)

Docket No. 2002-518

ORDER APPROVING UPDATED REQUEST FOR USF

LINCOLNVILLE TELEPHONE COMPANY
Implementation of 2002 Amendments to Chapter 204

Docket No. 2003-486

ORDER APPROVING BSCA CALCULATIONS SUBJECT TO TRACKING

TIDEWATER TELEPHONE COMPANY
Request for Universal Service Funding
(Updated Request)

Docket No. 2002-529

ORDER APPROVING UPDATED REQUEST FOR USF

TIDEWATER TELEPHONE COMPANY
Implementation of 2002 Amendments to Chapter 204

Docket No. 2003-487

ORDER APPROVING BSCA CALCULATIONS SUBJECT TO TRACKING

WELCH, Chairman; DIAMOND and REISHUS Commissioners

I. SUMMARY

In this Order, we approve the initial universal service funding for Lincolnville and Tidewater Telephone Companies (the Companies) for needs arising from requirements to reduce intrastate access rates and to implement the addition of all contiguous exchanges to the Companies' basic service calling areas (BSCAs), required by Chapter 204 of our Rules. We also conditionally approve the Companies' calculations for revenue losses and additional costs for the BSCA changes. In an order issued on June 24, 2003 in the USF dockets listed above (2002-518 and 2002-529), we approved Lincolnville's and Tidewater's rate plans for increasing local rates to Verizon levels (in two additional steps beyond those previously implemented) and to reduce their intrastate access rates to their interstate levels (that existed on January 1, 2003), also in two steps. The first step for both the local and access rate changes will take place on December 15, 2003 (simultaneous with the BSCA changes). The second step will occur on May 31, 2005, the final date for compliance with the access rate directives of amended 35-A M.R.S.A. § 7101-B. The BSCA changes will take place on December 15, 2003, simultaneously with the first step of the access rate – local rate changes.

II. BACKGROUND

On March 5, 2003, in orders issued in Docket Nos. 2002-518 and 2002-529, we approved universal service funding (USF) for Lincolnville and Tidewater. On June 24, 2003, in an order issued in both dockets, we approved a Stipulation that resulted in no present universal service funding for either Company, but allowed both Companies to reapply for USF in connection with rate and BSCA changes that, under the Stipulation and the BSCA Rule (Chapter 204), would become effective on December 15, 2003. The change between the March 5 and June 24 orders with regard to USF and the change in plans for reducing access rates and increasing local rates became feasible because of a change in law. 35-A M.R.S.A. § 7101-B previously required all LECs to implement intrastate access rates equal to or less than their interstate access rates by May 30, 1999 and every two years thereafter. The amendments to Section 7101-B effectively postponed the May 30, 2003 deadline to May 31, 2005. Accordingly, it was possible for Lincolnville and Tidewater to reduce their intrastate access rates more slowly and postpone the need for USF.

In conjunction with receiving USF, Chapter 288, § 3(C)(3) requires local exchange carriers that are USF recipients to establish "local basic service rates that are no less than those of Verizon exchanges that have Basic Service Calling Areas of a similar size." Section 3(D)(2) allows recipients to phase in those local rates. The Stipulation approved in the June 24 Order requires the Companies, on December 15, 2003, to increase their local rates by half the distance from their present levels to the Verizon rates that were in effect on July 1, 2003; on May 31, 2005, the Companies must increase their local rates to the full local rates for Verizon that are in effect on January 1, 2005.

Both Companies have now applied for universal service funding to become effective on December 15, 2003. Although they are increasing their local rates on that date, two events that affect their revenues and costs will occur at the same time. The net effect of those two events outweighs the effect of the local rate increases. The first event is the access rate decreases and access revenue losses. The second is the projected net revenue losses and cost increases that the companies will incur as a result of implementing the BSCA changes (the addition of all contiguous exchanges to the BSCA for each exchange) required by the November 2002 amendments to Chapter 204. The net difference for each Company will be made up by USF. On an overall basis, this set of changes will be revenue neutral: after December 15, 2003, the Companies will collect the same total amount from access, local rates and USF as they previously did from access and local rates.

In addition to our overall goal in this Order to achieve revenue neutrality on an overall basis, Chapter 204 contains specific provisions to ensure that the BSCA implementations are revenue neutral. The computations involved in ensuring revenue neutrality for the access rate change are straightforward, but it is much more difficult to achieve revenue neutrality for the BSCA in advance because of the difficulty of predicting "take" rates for Premium and Economy calling options and local per-minute rates. We discuss the BSCA implementation and rate effects in greater detail below.

III. DISCUSSION

In the June 24 Order Approving Stipulation, we decided that Lincolnville and Tidewater would receive USF sufficient to offset the net effect of changes in their local and access rates, and we approved the Companies' calculations of those effects.

The June 24 Order also recognized that USF would be available to cover net revenue losses and costs associated with the BSCA changes. We have already found a need for USF for these two Companies. The projected net loss of revenue and additional costs due to the BSCA expansion simply adds to the existing need. We did not approve initial amounts of USF support for BSCA at that time because the Companies had not yet filed estimates of BSCA costs (lost revenues and increased capital and operating costs). We stated that we would review the Companies' BSCA estimates after they were filed, and would establish an amount of initial MUSF support for each Company, which would become effective at the time of the first step of the access and local rate changes and the implementation of the BSCA changes. We also recognized the need to modify any amounts granted for BSCA-related revenue losses and costs following "tracking" pursuant to Chapter 204.

The USF amounts for each company will be adjusted on May 31, 2005, the date that the Companies will reduce access rates the remainder of the way to interstate levels as of January 1, 2003 and increase local rates to Verizon levels. The USF amount will be further adjusted at that time to take into account the effects, if any, of the BSCA tracking mechanism.

In their October 7, 2003 filings (modified by filings on October 23, 2003, pursuant to discussions between the Companies and the Commission staff), the Companies provided estimates of the Step 1 access revenue losses and associated revenue gains from local rate increases. They also provided estimates of the revenue and cost effects from implementation of the BSCA changes. The BSCA-related revenue changes include access revenue losses that will occur because calls to the areas that are being added to the Companies' BSCAs previously incurred long distance toll charges (and generated access revenues for the Companies), but are now local calls.[1] They also include changes in local revenue due to changes in the mix of subscribership to the Premium and Economy options, as well as changes due to the change in the rate (from 50 cents per call to 5 cents a minute) for economy customers who call outside the flat-rate calling areas of the Economy option but within the BSCA. The Companies also included estimates of BSCA-related administrative, facility and directory costs. As discussed in greater detail below, it is difficult to predict many of these elements.

We note that Lincolnville and Tidewater (and USF companies generally) have not proposed any specific local rate increases (beyond those for phasing up to Verizon rates) to cover access revenues losses and costs attributable to the BSCA expansions. We agree that the Companies' approach is appropriate. The Companies are required to increase their local rates to equal those of Verizon as a condition of receiving USF. We do not at this time see any reason to require these Companies to implement rates that are higher than Verizon's,

[1] The Companies have no retail toll revenue; they only provide access to interexchange carriers.

although that result is permissible under Chapter 288, § 3(C)(3). BSCA expansion diminishes the Companies' revenues; it is no less appropriate to cover these revenue losses through USF than it is to cover revenue losses caused by the need to lower access rates.

Chapter 204, § 5(A) states that a LEC that implements new or modified BSCAs may propose rates that will cover its additional costs and net revenue losses that are attributable to those BSCA changes. We interpret that provision to allow a company that is already receiving USF to seek additional support. Section 5(C) requires LECs to "track" revenue effects for a period of at least 12 months. If the LEC's net revenue loss is greater than predicted (i.e., greater than the prediction upon which the rates approved pursuant to Section 5(A) were based), the LEC may request recovery of the shortfall and propose rates (or a change in USF) that will collect the correct amount of revenue loss. If the LEC's net revenue loss is less than predicted (and included in rates approved pursuant to Section 5(A) or has been funded by USF), it must return the excess to customers (or the Universal Service Fund) and must propose future rates (or ongoing support) that will collect the correct amount to offset the revenue loss.

Chapter 204, § 5(C) does not expressly require "tracking" of expenses and new investment, or the recovery by the utility or by ratepayers of the difference between the estimates embodied in rates (or USF) and actual costs, notwithstanding the fact the Section 5(A) allows a LEC to propose rates (or USF) in advance of implementation that will cover those costs. Because the Companies provided few details in support of their estimates of those costs and because we have not subjected them to close examination, we find that it is reasonable, as a condition of granting universal service funding that will cover those costs, that the Companies keep records of the actual BSCA-related implementation expenses and investment, and that they provide that information to the Commission when such expenses and investment are completed, but no later than March 15, 2005, when they must also file the information necessary for the Step 2 access and local rate changes that will take effect on May 31, 2005. With that information we may consider whether to order a change in future USF funding to reflect the differences between present estimates and actual costs. We do not decide at this time whether we would order reconciliation for the differences during the tracking period.

IV. CALCULATION OF THE ACCESS RATE, LOCAL RATE AND BSCA REVENUE EFFECTS; BSCA TRACKING ACCOUNTS FOR REVENUE CHANGES

Two separate events will affect Lincolnville's and Tidewater's access revenue on December 15, 2003: the reduction in access rates[2] and the elimination of access revenue entirely from those toll routes that will become local as result of adding them to BSCAs. The interaction between the calculations for those two effects is somewhat complex. In their October 7 and 23 filings, the Companies in effect assumed that the access rate reductions that will take effect on December 15, 2003 occurred before the elimination of access (and billing and collection) revenue entirely for those interexchange toll calls to contiguous

[2] The Companies will reduce access rates again on May 31, 2005, but for the purpose of analyzing the interaction of access rate reductions with the loss of access and billing due to the expansion of BSCAs, it is not necessary to consider the later access rate changes.

exchanges that will be added to BSCAs, even though both events will occur simultaneously. The Companies' approach is reasonable, although it would be equally valid to calculate the effect of the BSCA changes first.

We see no substantive difference between the end results of the two approaches. Neither method over-counts or under-counts and both arrive at the same end result. To determine the amount of total lost access revenue, the Companies applied the access rate reduction to all their access minutes (including the minutes that will be lost entirely because of the BSCA expansions). For the subset of access minutes that will be lost entirely due to the BSCA expansions, the Companies then applied the difference between the new access rates and $0. They also calculated the associated loss in billing and collection (B&C) revenue for those minutes. The alternative method would calculate the revenue effect of eliminating the minutes that will be lost to the BSCA expansions first (using present access rates), and would then determine the revenue effect of the access rate reduction to the remaining (non-BSCA) minutes.

Although there is no difference in the end results of the two approaches, each produces different numbers for the revenue reduction due to the access rate change and that for the loss of access minutes as a result of the BSCA expansions. For the BSCA revenue loss, the method used by the Companies shows a smaller loss than the alternative approach. The Companies already had reduced the access rate prior to eliminating the minutes entirely, leaving only the difference between the *reduced* access rate and $0 as the BSCA-caused loss. The alternative method would show a greater BSCA access revenue loss: by eliminating the BSCA minutes first, the loss per minute would show as the difference between present access rates and $0. Conversely, the effect on the revenue loss due to the access rate reduction is greater using the Companies' approach because the minutes that will disappear with the BSCA expansions have not yet been removed; under the alternative approach, they would be removed first, thereby showing a smaller loss.

As noted above, the difference between the two approaches has no effect on the end results, in particular, on the amount of USF support and the BSCA tracking accounts. First, to the extent that one method shows a greater (or lesser) BSCA revenue loss, the difference is offset exactly by a lesser (or greater) amount shown for the access rate reduction. Second, the BSCA tracking account is not used for tracking lost access and B&C revenues. Even though the two approaches will produce two different numbers for this loss, once the amount is calculated, it never changes. (The Companies must, of course, use the same approach at the end of the tracking process.) The number of minutes and messages (and, therefore, access and B&C revenue) that the Companies will lose as a result of the BSCA expansions is determined in advance by the use of the results from an appropriate test period. We have therefore used that amount in this Order to alter the amount of universal service funding. In addition, one of the components of local service revenue will be permanently lost and its amount known in advance. That is the revenue from the rate of 50 cents per call for calls by Economy option customers to exchanges within the customer's BSCA but outside the flat-rate calling area of the Economy option. (That rate is being replaced by a rate of 5 cents per minute.)

The real purpose of the tracking account is to track the amount of local revenue that will offset known amounts described above. The local replacement revenues include revenues available from the increases to local rates for both the Premium and Economy options and from a new rate of 5 cents per minute for calls by Economy option customers to exchanges within the customer's BSCA but outside the flat-rate calling area of the Economy option (replacing the 50 cents per-call rate). These revenues cannot be fully predicted because the realized mix of customers subscribing to the Premium and Economy options may differ from the predicted levels. Predictions are difficult to make because, ultimately, only customers can determine which of the calling options has greater value to them, and the calling areas available under each option will have changed. It is also difficult to predict revenues that the Companies will receive from the new 5 cents per minute rate. The new rate may be more attractive to some customers and less attractive to others than the former 50 cents per call rate and might even influence customer choice for the two calling options.

Under the local rate plan we have approved for Lincolnville and Tidewater, the Companies will not change their local rates again until May 31, 2005. USF funding will change at the same time. We therefore see little reason to require a change in USF to adjust for the results of BSCA tracking only a few months prior to that date. The Companies shall track the replacement revenues for 12 months and report the results to the Commission on or before March 15, 2005 so that, if necessary, they may be incorporated into the USF that will become effective for the third quarter of 2005. Because notice of the BSCA changes will be relatively close to the December 15, 2003 implementation date, and many customers may not respond immediately to the calling options contained in the notice , we believe it makes sense for the 12 months of tracking to begin on February 1, 2004. The results shall be compared to the projections used in the October 23, 2003 filings.

V. BSCA TRACKING ACCOUNTS FOR INVESTMENT AND COSTS

Lincolnville and Tidewater shall also track additional investments and expenses that they incur for implementing BSCA and shall report the results to the Commission on or before March 15, 2005. See discussion in Part III. Tracking should be for a period that covers all expenses related to BSCA and any changes in investment attributable to the BSCA expansions, but not later than January 31, 2005. Results shall be presented in absolute and annualized forms.

VI. SUMMARY OF REVENUE AND COST CHANGES

	Lincolnville	Tidewater
Local Rate Revenue Increase	$112, 250	$355,697
Access Revenue Decrease	($90,471)	($397,612)
BSCA Revenue Loss (access and billing and collection) [3]	($77,195)	($511,540)
BSCA costs	($1,133)	($4,867)
Total Universal Service Funding	$56, 549	$558,322

VII. RATE AND USF CHANGES FOR EFFECT ON MAY 31, 2005

Under the Stipulation approved in the June 24 Order, Step 2 of the changes to access and local rates will occur on May 31, 2005. At that time, the Stipulation requires the Companies to decrease their access rates to the interstate levels as of January 1, 2003 (the date specified in the amended statute). It also requires the Companies to raise their local rates to Verizon levels as of January 1, 2005, i.e., the Verizon rates that will be in effect six months prior to the rate changes that will be implemented by the Companies. In *Maine Public Utilities Commission, Investigation of Compliance of Verizon Maine with Amended 35-A M.R.S.A. § 7101-B*, Docket No. 2003-358, we recently decided that Verizon would phase in the access rate reductions required by amended Section 7101-B on May 31, 2004 and May 31, 2005.[4] We did not decide if Verizon would be allowed to offset those access rate decreases with increases to local rates. That issue will be addressed in further proceedings.[5] If we do permit a local rate increase by Verizon that will become effective on May 31, 2005, Chapter 288 requires Lincolnville and Tidewater to increase their local rates to meet the Verizon level as of that date.[6]

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[3] The Companies calculated the reduction in access revenues due to the access rate decrease first, then eliminated the minutes (and associated revenue) attributable to BSCA expansions. See discussion in Part IV above.

[4] We decided this issue at our deliberations on October 9, 2003, but no Order has issued yet in that case.

[5] We will determine this issue in the future depending on whether the decreases meet the definition, under Verizon's AFOR, of an exogenous change.

[6] If we permit Verizon to increase local rates on May 31, 2004 to offset the first phase of its access revenue loss, that change will already be in effect by January 1, 2005, the reference point for the rates, under the Stipulation, that Lincolnville and Tidewater must meet. Two other changes to Verizon's rates will also be in effect at that time: increases to Verizon's

As discussed above, the Companies also need to track BSCA-related changes in local revenues and costs. Finally, the Companies may experience other changes in sales that may need to be taken into account in establishing revised USF that will become effective on May 31, 2005. The Companies therefore shall file the most recently available billing units for all services by March 15, 2005. For all of these reasons, we will not decide at this time the exact level of USF for Lincolnville and Tidewater that will become effective on May 31, 2005.

Accordingly, we

1. APPROVE the plan of Lincolnville Telephone Company to increase local rates in two steps, as described herein. Lincolnville shall implement the first step on December 15, 2003, and shall provide advance notice to its customers as soon as feasible, along with notice of calling options and rates for those options available for the basic service calling areas of each of its exchanges;

2. APPROVE funding from the Maine Universal Service Fund in the amount of $56,549 for Lincolnville Telephone Company, effective from December 15, 2003 until May 31, 2005 unless modified by later order;

3. APPROVE the plan of Tidewater Telephone Company to increase local rates in two steps, as described herein. Tidewater shall implement the first step on December 15, 2003, and shall provide advance notice to its customers as soon as feasible, along with notice of calling options and rates for those options available for the basic service calling areas of each of its exchanges;

4. APPROVE funding from the Maine Universal Service Fund in the amount of $558,322 for Tidewater Telephone Company, effective from December 15, 2003 until May 31, 2005 unless modified by later order;

5. APPROVE, subject to the maintenance by Lincolnville and Tidewater Telephone Companies of tracking accounts and the reporting of the tracking results, as described herein, the calculations by each company of expected revenue losses and gains and cost changes as a result of BSCA expansions;

6. ORDER Lincolnville and Tidewater Telephone Companies to maintain tracking accounts from February 1, 2004 until January 31, 2005 for net revenue changes (from changes in access and local rates and billing units) resulting from additions to basic service calling areas (BSCAs) that will become effective on December 15, 2003, to report the results of that tracking on or before March 15, 2005, and to reimburse the Maine Universal Service

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local rates to offset revenue losses and cost increases for the implementation of the December 15, 2003 BSCA changes and rate changes resulting from our decision to require Verizon to eliminate rate groups, also effective on December 15, 2003. *See Maine Public Utilities Commission, Investigation of Proposed Rate Design by Verizon Maine to Eliminate Multiple Rate Groups Through Consolidation Into a Single Statewide Rate Group*, Docket No. 2003-512, Order (October 17, 2003).

Fund for any over-funding consistent with the requirements of Chapter 204, § 5(C) and this Order;

7. ORDER Lincolnville and Tidewater Telephone Companies to maintain tracking accounts from the commencement of the incurrence of expenses until January 31, 2005 for changes in revenue requirement (expenses and investment) resulting from of the implementation of the BSCA changes that will take place on December 15, 2003, and to report the results of that tracking on or before March 15, 2005;

8. ORDER Lincolnville and Tidewater Telephone Companies to file the most recently available billing units for all their services on or before March 15, 2005.

Dated at Augusta, Maine, this 4th day of November, 2003.

BY ORDER OF THE COMMISSION

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Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
Diamond
Reishus

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.

2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.

3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.